

Audit of Supply Management in the Sierra Leone Country Office

September 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/32



Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of supply management in the Sierra Leone Country Office. The objective of the audit was to provide assurance as to whether there were adequate and effective controls, risk management and governance processes over supply management in the Sierra Leone country office.

The audit took place in two phases, 11-28 March and 30 April-10 May 2013. It covered the period from January 2011 to May 2013, and focused mainly on the following areas:

- planning for and clearance of incoming shipments;
- reception of supplies at warehouses; and,
- distribution of supplies to implementing partners.

According to the 2012 Human Development Report (UNDP), Sierra Leone is one of the poorest countries in the world with a gross national income per capita of US\$ 460 in 2011, and ranks 177th out of 186 countries in the 2012 Human Development Index. Sierra Leone had an estimated population of 6 million in 2011, of which 45 percent were under 14 year of age. The country has made some progress in child survival; the under-five mortality rate has dropped to 174 in 2010 as compared to 276 in 1990, according to the 2011 UN Inter-agency Group report *Level & Trends in Child Mortality*. Attendance in primary school increased from 69 percent in 2005 to 74 percent in 2010.

In 2012, supply inputs totaled about US\$ 18 million, which represented about 42 percent of total programme inputs. Most supplies are procured offshore via the UNICEF Supply Division (87 percent in 2012). The Free Health Care (FHC) programme, a major programme implemented in coordination with the Government, accounted for 37 percent of programme supplies in 2012. UNICEF was entrusted with purchase of medical supplies, and ensuring their distribution to Government-controlled warehouses and medical facilities across the country. As of the date of the audit, donors had granted about US\$ 57 million to UNICEF for the FHC programme since 2009.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures, 11 of which are being implemented as a high priority. They are as follows:

- Strengthen identification and mitigation of risks related to supply management.
- Evaluate the structure of, and the skills set available in, the supply and procurement unit, and build efficiency and effectiveness to support UNICEF's commitment to management of programme supplies.
- Systematically prepare and monitor an annual procurement plan, and coordinate with Supply Division and agree on timing for the delivery of supplies.
- Ensure timely preparation of supplies distribution plans and coordinate with the Ministry of Health Services on the timing and frequency of distribution.
- Update the contractual agreements with the supplies clearing and forwarding (C&F) agent

- so that all services and fees rates are included in the agreements.
- Strengthen financial processing of supplies C&F transactions, including ensuring correct certification and verification of third parties' invoices.
 - Improve the operational management of supplies C&F activities, including timeliness of payments, and ensuring one comprehensive system for managing supplies with access limited to the relevant staff members.
 - Ensure timely and accurate updating of the supply module in UNICEF's management system, VISION, regarding movement of supplies.
 - Discontinue payments by cheque, and extend bank transfers to all payments. Exceptions should be documented and approved by the Representative.
 - Ensure timely clearance of un-reconciled bank transactions.
 - Implement the existing workflow for incoming invoices to ensure incoming invoices are reviewed and paid promptly.

Conclusion

The audit concluded that overall, controls and processes in the supply management of the Sierra Leone Country office needed significant improvement to be adequately established and functioning. The measures to address the issues raised are presented with each observation in the body of this report. The country office has prepared action plans to address the issues raised.

The country office, with support from the West and Central Africa Regional Office and OIAI, will work to monitor implementation of these measures.

Contents

Summary	2
Objectives and scope	5
Background	5
Audit observations	5
Management of Free Health Care programme risks	5
Oversight and accountabilities over supplies	7
Follow-up of previous reviews of supply management	8
Planning for procurement of programme supplies	9
Supply distribution and end-user monitoring	10
Contractual agreement for clearing and forwarding	11
Financial processing of clearing and forwarding transactions	12
Management of clearing and forwarding of supplies	14
Recording of supplies in warehouse	15
Goods and Services Tax (GST)	16
Use of cheques; bank reconciliations	17
Processing of invoices	18
Advance payments	18
Conclusion	19
Annex A: Methodology, and definition of priorities and conclusions	20

Objectives and scope

The objective of the audit was to provide assurance as to whether there were adequate and effective controls, risk-management and governance processes over supply management in the Sierra Leone country office.

The audit covered the period from January 2011 to May 2013, and focused mainly on the following areas:

- planning for and clearance of incoming shipments;
- reception of supplies at warehouses; and,
- distribution of supplies to implementing partners.

Background

UNICEF country offices are expected to exercise due care in the effective and efficient procurement, reception, and warehousing of supplies and their distribution to implementing partners. The extent to which offices handle supplies varies widely; an office may be mainly concerned with advocacy on behalf of children and women, and the supply function may then be a very small part of their work. In the case of Sierra Leone, however, supply inputs are important; they totaled about US\$ 18 million in 2012, which represented about 42 percent of total programme inputs. Most supplies are procured offshore via the UNICEF Supply Division (87 percent in 2012).

In Sierra Leone, UNICEF has a particular supply function in connection with the Free Health Care (FHC) programme, a major programme implemented in coordination with the Government. UNICEF is entrusted with purchase of medical supplies, and ensuring their distribution to Government-controlled warehouses and medical facilities across the country. This accounted for 37 percent of programme supplies in 2012. As of the date of the audit, donors had granted about US\$ 57 million to UNICEF for the FHC programme since 2009.

Audit observations

Management of Free Health Care programme risks

Risks should be identified and managed through implementation of appropriate mitigation measures. The audit reviewed the country office processes for identification and mitigation of risks for the Free Health Care Programme (FHC).

The country office had entered into this major health initiative without an adequate risk assessment. In this programme, which was initiated by the Government in late 2009 and became operational in April 2010, UNICEF was entrusted with procuring medicines and making them

available to the Government's central warehouse and medical facilities across the country. The FHC had attracted total funding from donors of US\$ 57 million since inception. It was recognized that FHC was introduced into a high-risk environment with very weak supply and procurement systems as well as insufficient monitoring and control systems.

The risk and control self-assessment (RCSA)¹ conducted by the office in 2012 had captured some significant risks associated with the FHC; however, it had missed others, including risks such as weak tracking of shipments and weak management of warehouses. The RCSA also did not consider UNICEF's responsibility for country-wide monitoring of the supplies. Further, for some risks that were captured, there were no identified mitigation measures. For instance, the risk related to delays in clearing containers was listed, but no action had been identified to mitigate that risk (see related observation on planning and monitoring).

When the programme started, there was no document clarifying the exact responsibilities assigned to the country office, and particularly the limits of its responsibilities in the supply chain. As deficiencies in the management of the supplies were identified and reported, UNICEF and its Government partners decided, among other initiatives, to develop a Matrix of Distribution Strategy and Control Mechanism of Monitoring and Supervision. The first version was finalized in August 2011, and was further revised in August 2012. The Matrix established the respective responsibilities of UNICEF and the Government in FHC but lacked an effective mechanism to ensure compliance therewith. Despite regular meetings and contacts at various levels between donors, the Government and UNICEF, problems continued to occur in 2012 that culminated in the port authority auctioning supply containers belonging to the country office that had not been cleared from the port. Following this incident, the country office took action that included the change of the supplies clearing and forwarding (C&F) agent.²

At the time of the audit, agreements had been signed to progressively transfer UNICEF's responsibilities in the FHC to a National Pharmaceutical and Procurement Unit (NPPU).

Agreed action 1 (high priority): The country office agrees to:

- i. Strengthen identification and mitigation of risks related to supply management, including those related to the clearance, distribution and warehousing of supplies.
- ii. Coordinate with the donors and the Government on establishment of a committee for ensuring compliance with the Matrix of Distribution Strategy and Control Mechanism of Monitoring and Supervision for the Free Health Care programme.

Target date for completion: 30 November 2013

¹ Under UNICEF's Enterprise Risk Management (ERM) policy, offices should perform a Risk and Control Self-Assessment (RCSA). The RCSA is a structured and systematic process for the assessment of risk to an office's objectives and planned results, and the incorporation of action to manage those risks into workplans and work processes.

² The clearing and forwarding (C&F) agent coordinates cargo handling, customs clearance, and delivery to the agreed location of offshore supplies shipped by air or sea. The clearing and forwarding agent coordinates with third parties involved in the clearing process, including the representative of shipping lines and the port terminal operator.

Responsible staff members: Representative, Free Health Care Coordinator, Central Logistics Officer

Oversight and accountabilities over supplies

The country office should establish appropriate oversight mechanisms, and enforce accountabilities for weak performance. The audit noted the following:

- Approved reporting lines and organization structure were not adhered to in some instances. There was distrust among staff members in the supply and procurement unit, which led to staff members not performing roles normally assigned to them. In particular, this affected effectiveness and accountability of a staff member with responsibilities for the Matrix for the FHC programme.
- Information, particularly on the tracking of shipments and clearing of containers, was not systematically shared among staff members in the supply and procurement unit. As a result, staff members with day-to-day responsibilities in the tracking and clearing of containers of supplies could not effectively carry them out.

When inefficiencies and ineffectiveness were identified, accountabilities were not systematically established at appropriate levels of the operations section to which the supply and procurement unit reports. The 2012 individual workplan outputs for staff conducting supply activities were not developed to address the concerns on supply management made known by the Representative. At the time of the audit, the 2012 performance assessments of staff members in the supply and procurement unit had mostly not been completed.

The set of performance indicators included in the 2011-2012 Annual Management Plan,³ as well as those monitored by the Country Management Team (CMT), did not include any for tracking of shipments and clearance of containers. At the time of the audit, the supply and procurement unit was working on developing adequate performance indicators, but they had yet to be endorsed by management. As a result, the CMT was not in a position to comprehensively monitor the performance of the supply unit.

Agreed action 2 (high priority): The office agrees to evaluate the structure and existing skills set of the supply and procurement unit and take appropriate action to build the section's efficiency and effectiveness.

Target date for completion:⁴ 30 November 2013

Responsible staff members: Representative, Chief of Operations

Agreed action 3 (medium priority): The country office agrees to strengthen oversight and accountability of the supply function, ensuring that:

³ The AMP is a mechanism to identify and monitor office priorities and objectives.

⁴ The country office indicated that support from the Regional Office will be needed to complete the action plan.

- i. Established reporting lines are adhered to and job descriptions are complied with.
- ii. Information-sharing mechanisms are clearly established and adhered to.
- iii. Clear individual workplans are established for staff members associated with supply management.
- iv. Performance evaluation for staff members associated with supply management is diligent and accurate and is based on assigned responsibilities.
- v. Performance indicators are defined related to identified weaknesses – particularly on tracking of shipments, clearing of containers and follow-up of supply and procurement reviews – and are monitored through the Country Management Team (CMT).

Target date for completion: 31 October 2013

Responsible staff members: Representative, Chief of Operations, Supply/Procurement Manager

Agreed action 4 (medium priority): The country office agrees to, with input or coordination with the regional office, conduct a team-building exercise within the office, with focus on the operations section.

Target date for completion:⁵ 31 October 2013

Responsible staff members: Representative, Chief of Operations

Follow-up of previous reviews of supply management

Because of reported weaknesses in the supply management of the country office, two previous reviews had already been undertaken, in 2011 and 2012.

In 2011, following reports of deficiencies in supply management, a major 12-month review of the supply chain management in the FHC programme was conducted by an institutional consultant at a cost of US\$ 1.56 million over a 12-month period. The terms of reference for the review included physical counts of supplies in UNICEF warehouses and a sample of Government controlled-warehouses, as well as a review of the internal controls in place. The review led to more than 100 recommendations addressed to both UNICEF and Government entities. The report included good recommendations, but there was no evidence that the country office had, in coordination with the Government, sorted and analyzed them and provided formal management comments. Further, the audit noted that there was no comprehensive tracking of the implementation of the recommendations made. In general, the audit could not clearly establish how the office had responded to the review.

Following the auctioning by the port authority of containers belonging to the country office (see page 14), staff members from UNICEF's West and Central Africa Regional Office (WCARO) reviewed the supply/procurement activities of the country office in October 2012. Recommendations were made, including on the management of warehouses and the organizational structure of the supply and procurement unit. The audit noted that the country

⁵ The country office indicated that support from the Regional Office will be needed to complete the action plan.

office had not provided formal management comments on this report either. Also, at the time of the audit, there was no comprehensive implementation of the recommendations.

Lack of adequate analysis, as well as lack of formal management comments, acceptance and tracking of the implementation of recommendations, could lead to deficiencies not being addressed in an appropriate and timely manner.

Agreed action 5 (medium priority): The country office management agrees to:

- i. Review the recommendations included in the independent review reports on supply management, rank them in the order of priority, identify specific timeframes within which they should be implemented, and assign staff responsibilities for ensuring timely implementation.
- ii. Establish a process for periodic monitoring of the implementation of accepted recommendations.

Target date for completion:⁶ 31 October 2013

Responsible staff members: Representative, Deputy Representative, Chief of Operations

Planning for procurement of programme supplies

Procurement plans should be prepared to support implementation of an office's workplans. However, the office had not prepared a consolidated procurement plan in 2012. At the time of the audit, the procurement plan for 2013 was still being compiled, as annual workplans had not yet been finalized.

For programme supplies related to the FHC programme – 37 percent of programme supplies in 2012 – there was a yearly forecast based on discussions with the Government. Based on this yearly forecast, orders were placed for the total amount of supplies through UNICEF's Supply Division in Copenhagen. Supplies were received in different shipments, and the country office had no control over the timing of their arrival. It was therefore not possible to plan for warehousing space. (See also the following observation, *Supply distribution and end-user monitoring*.)

Agreed action 6 (high priority): The country office agrees to:

- i. Prepare a procurement plan to support implementation of the annual workplan, and monitor its implementation.
- ii. Coordinate with the Supply Division and agree on timing for the delivery of supplies (this would allow for better management of warehouses).

Target date for completion: 15 September 2013

Responsible staff members: Supply/procurement Manager

⁶ The country office indicated that support from the Regional Office will be needed to complete the action plan.

Supply distribution and end-user monitoring

The office did not prepare distribution plans for programme supplies. For the FHC programme, responsibility for preparing such plans had been assigned to the Ministry of Health and Sanitation (MoHS), while the country office was assigned responsibility for the actual distribution, as per the signed Matrix of Distribution. However, there was no clear understanding on the frequency and timing of the distribution of FHC supplies.

Lack of distribution plans had led to supplies being kept in warehouses for long periods. For example, the supply and procurement unit, in March 2013, was seeking distribution plans from the programme section for supplies related to the child protection and health programmes that were purchased in 2010 and 2011 respectively. Long storage of supplies carries the risk of supplies being damaged or expired. At the time of the audit, five percent of supplies in warehouses totalling US\$ 22,509 were either damaged or had expired. Further, long storage of supplies had led to instances where the country office had had to delay the clearing of containers at the port – with additional demurrage⁷ costs – because there was no space in the warehouses.

The lack of distribution plans was mostly because programme units did not systematically prepare them and provide them to the supply and procurement unit. For the FHC programme, responsibility for preparation of the plans had been assigned to MoHS, but it had not been clarified when and how often it should be done. Instead, distribution plans were prepared on an *ad hoc* basis, which undermined the country office's capacity to plan for the actual distribution.

According to the office's standard operating procedures (SOPs), the supply and procurement unit was responsible for end-user monitoring. The SOPs required that unit staff members take at least one end-user monitoring trip every quarter, and use prescribed templates. However, the unit had not been complying with the SOPs and it was unclear to the audit whether this was practicable with the existing staff resources (see also agreed action 3, above).

Lack of effective end-user monitoring of supplies involving staff in the supply and procurement unit carries the risk that programme supplies may not meet the needs of the target populations, or may not be used for the intended purposes.

Agreed action 7 (high priority): The country office agrees to:

- i. Ensure the preparation by the programme section of distribution plans that identify specific end-users of supplies, and ensure that these distribution plans are shared with the supply and procurement section before the expected dates of arrival of the supplies in-country (or in the warehouse in case of local supplies).
- ii. Clarify, in coordination with the Ministry of Health and Sanitation, the timing and frequency of distribution of supplies for the Free Health Care programme, and ensure that agreed timings and distribution are maintained, via the compliance mechanism to be implemented for the Matrix of Distribution (see agreed action 1.ii, above).

Target date for completion: Action reported as completed on 31 August 2013

⁷ Container rent.

Responsible staff members: Representative, Supply/Procurement Manager

Agreed action 8 (high priority): The country office agrees to ensure that there is effective end-user monitoring involving staff members from the supply and procurement unit and the programme section, and to define and monitor performance indicators related to end-user monitoring through the Country Management Team.

Target date for completion: 31 October 2013

Responsible staff members: Deputy Representative, Supply/Procurement Manager

Contractual agreement for clearing and forwarding (C&F)

The country office had signed a Long Term Agreement (LTA) with a local services provider for the provision of C&F services for the period from 1st April 2011 to 31st December 2012. The audit reviewed the LTA and noted the following.

The LTA specified the services expected from the C&F agent and the applicable schedule of rates and fees. However, certain rates referred to charges that were not specified in the signed LTA – regulated charges (for example container deposit, port rent and documentation charges), existing third parties' tariffs (such as airport charges and truck detention⁸), and clearing agent rates (for example packing charges and export agency fees). Also, these services and the corresponding rates were not attached to the payment file for reference and verification purposes, and the rates charged for those services therefore varied. Thus the audit found one case where the unit cost for the port rent of a 40-foot container was billed at Le⁹ 62,117 (approximately US\$ 14) in one invoice and at Le 173,016 (approximately US\$ 40) in another invoice included in the same payment voucher.

The audit found one instance where the country office used the C&F agent under a separate contract for the packing and clearing of education supplies, while the LTA signed with the same C&F agent was still valid and offered better rates. The C&F agency fee was Le 2,080,000 (about US\$ 484) in the contract; under the LTA it would have been only Le 1,200,000 (about US\$ 279).

There were instances where the office paid charges that, although not necessarily improper in themselves, had not been envisaged in the signed LTA, and had therefore not been authorized in advance by UNICEF. These charges were generally labelled under the generic description "administrative charges", without supporting documents and without breakdown for verification purposes. Based on the review of the outstanding debit notes, the audit identified 20 instances where "administrative charges" were invoiced to the country office by the C&F agent, for an amount of Le 3,964,675 (approximately US\$ 3,248).

As the country office, at one point, did not have sufficient storage space to clear containers that had been in the port for months, it rented a storage space from the C&F agent for one week at

⁸ Fees charged to UNICEF when a vehicle delivering supplies at the warehouse exceeds the time previously agreed for the operation.

⁹ The Sierra Leone currency, the Leone (Le), at average rate of 1US\$=4,300 Le.

the rate of US\$ 800, based on a verbal agreement. The audit noted that the country office actually used the storage for about 13 weeks and paid US\$ 10,160, without an amendment to the LTA or a new contract.

Agreed action 9 (high priority): The office agrees to:

- i. Ensure that all the rates and fees for valid services that were not specified in the long term agreement are attached to the original signed LTA and updated as needed.
- ii. In order to assist the verification and the identification of charges that are not included in the LTA, establish a checklist with all eligible charges with the respective rates, to be attached to all clearing and forwarding payments requests.

Target date for completion: Action reported as immediately implemented

Responsible staff members: Chief of Operations, Supply/Procurement Manager

Financial processing of clearing and forwarding transactions

Financial regulations and rules require that there are systems in place to ensure that financial transactions are appropriately processed, accurately recorded, and are complete. The following issues were noted in the processing of payments related to clearing and forwarding charges.

Supporting documents: The audit reviewed 12 payments. In three of these cases, amounting to US\$ 80,168, invoices were submitted by the clearing and forwarding (C&F) agent to the country office without supporting documents from the third party. For three additional other payments amounting to US\$ 91,861, payments were supported only by receipts. The signed contract with the clearing company explicitly stipulated that all the C&F agent invoices should be supported by the third party's original invoices.

Certification and financial review of payments requests: Except in a few cases, there was no evidence that invoiced charges were checked for accuracy, correctness and compliance with the applicable agreement terms. In certain cases, payments were made without addressing questions raised by the certifying officer about the justification for some of the charges. The staff concerned indicated that this was because of pressure to clear medical supplies promptly and avoid reputational risks of delay. However, this reflected inadequate planning and also created a risk of loss of funds through incorrect payments.

Review of the certification process indicated that staff involved did not understand some of the accounting documents. For example, the office received three credit notes from one third-party vendor, and instead of crediting them to the next invoice payment owed this vendor, the office paid the total amount of these credit notes to the C&F agent (who returned the payment to the office).

The certification function was sometimes performed by staff members outside the supply and procurement unit, who did not supervise the services provided and were not aware of the details of the clearing process and the nature of services expected from the C&F agent. When interviewed by the audit, some of these staff confirmed that they indeed did not have the required knowledge to perform a thorough verification of the invoices and that they mostly relied

on the supply staff who initiated the payment.

Staff members in the finance unit were not familiar with the different costs incurred in the supplies containers clearing process, and were not aware of the details of the signed LTA. Also, finance staff were relying on the certification performed by staff members from the supply and procurement section, who were seen as the experts.

According to article 1.2 of the LTA signed between UNICEF and C&F agent, the “Contractor shall act at all times so as to protect and not be in conflict with the interest of UNICEF, and shall use its best efforts to keep all costs and expenses at a reasonable level.” However, receipts and other supporting documents showed no evidence of basic controls undertaken by the C&F agent. For example, the supporting documents submitted by the third party to the C&F agent and submitted by the latter to the country office had no evidence of verification/certification, and were not stamped paid when this was the case. When a dispute occurred between the country office and the C&F agent, the country office identified discrepancies between the C&F agent’s requests for advances to pay third-party invoices, and the supporting documents from the third party. The audit noted that the country office did not systematically obtain periodic statements of transactions from the third party, so as to compare them to the invoices received from the C&F agent on the third party’s behalf.

These weaknesses occurred because staff members entrusted with certifying invoices and performing financial verification of payment requests had a weak understanding of their responsibilities.

Agreed action 10 (high priority): The country office agrees to:

- i. Ensure that payment requests for clearing and forwarding of supplies are supported by original invoices from the third parties. The office should include a clause by which the Clearing & Forwarding agent will certify the correctness of the invoices from the third parties as evidence of its verification of such invoices.
- ii. Periodically obtain statements of transactions from third parties and reconcile them with third-party charges invoiced by the clearing and forwarding agent.
- iii. Strengthen staff understanding of their financial roles, ensuring that certifying officers in the supply and procurement unit and staff responsible for financial verifications are aware of their responsibilities and accountabilities and that these responsibilities are carried out as per the UNICEF policy on internal controls.
- iv. Establish a process to ensure that questions raised by certifying officers are appropriately cleared before payments are made.

Target date for completion: Action reported as completed on 31 August 2013

Responsible staff members: Chief of Operations, Account/Finance Officer, certifying officers

Management of clearing and forwarding of supplies

According to the Long Term Agreement (LTA) signed between UNICEF and the C&F agent, 80 percent of the containers should be cleared within four weeks of receiving the documentation from UNICEF. However, some shipments stayed in the port for long periods; out of seven

shipments reviewed, one shipment stayed in the port for 154 days, three between 220 and 240 days and one for 381 days.

In August 2012 UNICEF containers of supplies were sent for auction by the port authority because they were not cleared within three months as set by the Port Authority policy. The six containers contained medical supplies procured by UNICEF under the FHC programme and one container with motorcycles. The country office requested assistance from the Government, and the port authority was ordered to return the containers to the port, but some had already been auctioned. The value of missing supplies amounted to US\$ 186,000. An investigation commissioned by the Government concluded that the items were sent to auction due to delays in clearing containers and that the delays were themselves due to operational lapses on the part of a broad spectrum of participating institutions.

On the UNICEF side, the audit noted that the delays in the clearing and forwarding of supplies were due to several factors. In some instances, the country office requested the C&F agent to delay the clearing and forwarding of supplies due to the lack of warehouse space (more warehouse space had been secured since then). There was also a lack of budgeting for in-country logistics costs, so that funding was lacking when needed to expedite clearing and forwarding of supplies. In the first quarter of 2012, the C&F agent, the transport companies and some warehouse owners refused to provide any further services to the country office until they have been paid for services already rendered. The audit noted that the lack of funding for clearing purposes was still an issue, as at the time of the audit, payment could not be made for containers already cleared by the C&F agent contracted in late 2012.

There was no system to track shipments and clearing activities. Information differed from staff member to staff member, and was not shared. Also, there was unsecured access to the information and data (this should be limited to relevant staff, so that it is kept completely accurate, assisting efficient tracking of shipments). The information maintained did not include the reasons for long delays in clearing supplies, making it hard to take prompt and appropriate corrective action. A tracking sheet had been developed by the C&F agent hired in late 2012 and was introduced on 21 May 2012, but this tool was not yet being cross-verified against the country office's own data, and had yet to include verifiable data needed to verify invoices submitted by the C&F agent (such as the date of arrival of the shipment, the delivery date to the warehouse and all the payments made for each delivery).

Overall, the audit noted that the office lacked a quality assurance mechanism that could have prevented, or ensured early detection and correction of, weaknesses in supply management.

Agreed Action 11 (high priority): The country office agrees to:

- i. Establish a system to ensure that financial resources are made available far enough in advance to allow for the timely processing of in-country logistics payments.
- ii. Consolidate the different systems in place for the tracking of shipments and clearing of supplies and come up with one system to be used by all staff involved, including definition of red flags for immediate corrective action.
- iii. Ensure that access to the supply information system is limited to relevant staff members and responsibilities assigned for its maintenance.

Target date for completion: Action reported as completed on 31 August 2013

Responsible staff members: Supply/procurement Manager, Procurement Officer, Programme Section Heads

Recording of supplies in warehouse

The country office uses four warehouses in Freetown: one located in the UNICEF compound, two provided by the Government rent free, and an arrangement with the World Food Programme (WFP) to use a space in its warehouse when needed. The audit visited two warehouses (the WFP space and the Government Wharf) and noted the following.

Dual records: The country office maintained two sets of records for receipts and delivery of supplies, one in VISION,¹⁰ and the other one in an Excel spreadsheet maintained by the supply and procurement unit. The parallel system was established because, according to the country office, the reports generated from VISION did not provide some key information, such as ageing of the supplies, unit cost, quantities received and quantities released to implementing partners. The audit confirmed with relevant staff in UNICEF Headquarters that such information could be generated by VISION, which implied that staff members in the supply and procurement unit were not sufficiently trained in using the VISION supply module. The use of a second, manual, system in addition to VISION was not only a duplication of effort; it also increased the possibility of inaccurate information due to human error.

Recording of supplies – Government Wharf: In one warehouse, the Government Wharf, there were programme supplies that were recorded neither in VISION nor in the spreadsheet maintained by the supply unit. The office indicated that, in one case, programme supplies (one projector, one scanner and one printer) were erroneously recorded as assets, and that in another case the supplies (stationery for the Child Protection Programme) had been intended to stay for a short period before distribution but ended up staying in the warehouse for more than five months. The audit also found a stock of water purification and disinfectant sachets (14,200 boxes, each one containing 240 sachets) occupying around 40 percent of the warehouse space. However, they were not recorded in VISION because they were donated and the staff member responsible for recording receipt of supplies did not know how to deal with donated supplies. The value of supplies recorded in VISION for this warehouse of US\$ 148,632 was therefore inaccurate.

Recording of supplies – WFP warehouse: The supplies stored in the WFP's warehouse (mainly Plumpy'nut¹¹ and therapeutic milk) were not recorded in VISION but only in the spreadsheet. Further, the audit verified the items stored in the warehouse against the spreadsheet and found many discrepancies in terms of available balances and dates of receipt. There were important quantities of Plumpy'nut received in the WFP warehouse that were not recorded in the spreadsheet. For instance, 145 boxes of Plumpy'nut that belonged to UNICEF and were stored in the space arranged in WFP's warehouse were not recorded in UNICEF's books. The reason was that information shared by WFP with the country office was not systematically provided to the staff member responsible for recording receipts and deliveries of supplies. Overall, the value of

¹⁰ VISION is UNICEF's management tool, introduced in January 2012.

¹¹ A ready-to-use therapeutic food that can be used in emergency malnutrition cases.

supplies in the storage space rented from WFP, reported by the office as US\$ 39,792 at the time of the audit, was not accurate. The audit also noted that the staff member responsible for updating warehousing records in VISION had never visited the warehouses for control purposes, and was relying mainly on the information provided by other staff members.

Overall, the audit could not ascertain whether the value of supplies recorded in VISION, which was US\$ 462,349 at the time of the audit, was accurate.

Agreed action 12 (high priority): The office agrees to:

- i. Assess training needs and conduct appropriate training for staff members of the supply and procurement unit on the supply module of VISION, so that all receipts and deliveries of supplies are done in the VISION supply module, and that all analysis is based on reports generated from VISION.
- ii. Discontinue the use of the parallel recording system using Excel spread sheets.
- iii. Record in VISION all programme supplies under the control of UNICEF, even for short periods of time. Donated supplies will also be recorded in accordance with UNICEF specific procedures that apply to them (CF/EXD/2004-012 of 7 July 2004).
- iv. Communicate information on movement of supplies in the warehouse space rented from WFP to all concerned staff, and in particular to those involved in updating warehousing information in VISION.

Target date for completion:¹² 30 November 2013

Responsible staff members: Representative, Supply/procurement Manager, Supply Officer, Supply Assistant

Goods and Services Tax (GST)

The 15 percent Goods and Services Tax (GST) had been established by the Government of Sierra Leone in January 2010. In view of UNICEF's tax-exempt status as per the basic cooperation agreement (BCA), the Sierra Leone National Revenue Authority (NRA) provided the country office with 50 original copies of GST Relief Purchase Order (GRPO) forms. These forms were to be used as tax exemption justification for the suppliers and service providers used by the country office.

The audit was informed that the GRPO forms are renewed on the condition that copies of all used forms are returned to the NRA. As the country office could not account for two relief forms, the NRA did not issue the office with new ones. On 5 July 2011, the UNICEF Representative requested that the NRA provide, exceptionally, additional forms even though the office could not track the missing forms, but the NRA had not responded at the time of the audit.

The forms were kept in the supply and procurement unit office, accessible to all staff members with contract management responsibilities within the operations section. The audit could not find evidence that the custody of these forms was assigned to a specific staff member, or that there

¹² The country office indicated that support from the Regional Office will be needed to complete the action plan.

was a system to record movements of the forms.

According to the audit's best estimate, the payment of the tax had cost the office about US\$ 70,000 for the clearing and forwarding transactions for the period 2011-2012. The above occurred because the office had not established a process for the management of the tax exemption certificates.

Agreed action 13 (medium priority): The country office agrees to ensure that UNICEF supplies are tax exempt. To this end, the office will:

- i. Follow up with the Government at the appropriate level on the renewal of the Goods and Services Tax Relief Purchase Order (GRPO) forms.
- ii. Assign responsibility for the custody of GRPO forms to a designated staff member, and establish a monitoring system over the circulation and use of the forms.

Target date for completion: 31 October 2013

Responsible staff members: Representative, Chief of Operations

Use of cheques; bank reconciliations

The audit noted that most payments to the C&F agent were made by cheque. In fact, out of the 65 payments made to the C&F agent during the period 2010-2012, only one payment was made via bank transfer, while all other 64 payments were made by cheque. The country office explained that the banking system in the country did not allow timely bank transfers. However, the audit met relevant representatives of the bank hosting the country office's bank accounts, who stated that timely bank transfers were possible and were actually the bank's preferred payment method.

The audit noted instances whereby four cheques were collected by a UNICEF staff member on behalf of the C&F agent, for an amount of Le 24,149,021 (approximately US\$ 5,848). Although the C&F agent confirmed to the audit that all cheques were eventually received by the company, there was a risk that the cheques could be lost and be altered, resulting in loss of funds.

The audit reviewed the bank reconciliations for February and March 2013 and noted weaknesses in clearing outstanding reconciling items. At the request of the country office, a staff member from UNICEF Ghana country office assisted the country office in the clearing of un-reconciled transactions and provided hands-on training to staff involved in the bank reconciliation process.

Agreed action 14 (high priority): The country office agrees to discontinue payments by cheque, and use bank transfers for all payments. Exceptions will be approved by the Representative and will be recorded along with the reasons for which they were made.

Target date for completion: Action reported as immediately implemented

Responsible staff members: Chief of Operations, Finance Officer

Agreed action 15 (high priority): The country office agrees to ensure the timely preparation of the bank reconciliations and prioritize and monitor the timely clearing of un-reconciled transactions.

Target date for completion: 31 December 2013

Responsible staff members: Chief of Operations, Finance Officer

Processing of invoices

The audit noted that six invoices from the former C&F agent could not be found within the country office, although the agent assured the audit that they were submitted.

The country office had received 19 invoices from the new C&F agent between December and February 2013; however, the audit could not ensure that these were all of them, as the country office did not maintain a system to record and track incoming invoices. The audit was shown a workflow for managing incoming invoices, but found that it was not being complied with, and that there was no comprehensive registry of incoming invoices, and no tracking of whether invoices were paid or not.

Also, the country office had delayed reviewing the 19 invoices for several months, with no explanation provided for the delay. The audit was informed that out of the 19 invoices, 17 had been returned to the new C&F agent on 23 April 2013, disputing the charged amounts; however, the country office had kept neither copies of the invoices nor evidence of the basis for disputing the charges. None of the 19 invoices had been paid by the country office at the time of the audit.

Agreed action 16 (high priority): The country office agrees to implement the existing workflow for incoming invoices, and establish systems to ensure that incoming invoices are reviewed and paid promptly.

Target date for completion: Action reported as immediately implemented

Responsible staff members: Chief of Operations

Advance payments

Advance payments were made to the C&F agent to pay third parties, even though the LTA signed with the C&F agent specified that the contractor would pre-pay or arrange pre-payment of all applicable charges to the point of ultimate destination specified by UNICEF (clause 2.6). In fact, the office had paid US\$ 350,000 in advances between 2011 and 2012 – this was 37 percent of all payments made to the C&F agent during that period. In addition, these advances were not formally authorized by the Representative as per rules and regulations.

The debit notes submitted by the C&F agent for advance payments had a short period of validity, and had to be paid within two to three working days to avoid additional costs of demurrage and storage in the port. This situation resulted in little time for the country office to undertake a thorough and detailed verification of the invoices.

The audit noted that the office did not establish a mechanism to monitor the advance payments made to the C&F agent, and did not ensure that they were deducted from subsequent invoiced amounts. As a consequence, the audit found cases where some advances paid were not deducted from the final debit notes. For example, the advance payments not deducted from the final debit

notes reviewed by the audit amounted to a total of about US\$ 44,000 for the four cases reviewed.

Agreed action 17 (medium priority): The office agrees to ensure that advance payments are not processed except in exceptional circumstances that warrant such payments. In such cases, the office should seek the authorization as per supplement 2 of UNICEF Policy 5 on cash disbursements, and ensure that a monitoring mechanism is established so that the advance payments will be considered in the subsequent payments.

Target date for completion: Action reported as immediately implemented

Responsible staff members: Chief of Operations, Supply/procurement Manager, Finance Officer

Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over supply management in the Sierra Leone country office needed significant improvement to be adequately established and functioning.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of a report will fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over *[audit area]*, as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the controls and processes over *[audit area]*, as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word “significant”.]

The audit team would normally issue an **unqualified** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a **qualified** conclusion will be issued for the audit area.

An **adverse** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes “significant” is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.